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The Philippines: Prospects for Commodity Exports

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An Intelligence Assessment

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June 1986

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The Philippines: Prospects for Commodity Exports

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An Intelligence Assessment

This paper was prepared by [redacted]
[redacted] the Office of Global
Issues, with a contribution from [redacted] Office
of Central Reference. [redacted]

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Comments and queries are welcome and may be
directed to the Chief, Economics Division, OGI, on
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**The Philippines:
Prospects for
Commodity Exports**

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Key Judgments

*Information available
as of 10 June 1986
was used in this report.*

Manila's success or failure in revitalizing depressed Philippine commodity export industries will have major implications for the Aquino government's longevity and for US interests. With two-thirds of the Philippine population employed in agriculture and mining, economic recovery in the countryside is vital to President Aquino's efforts to fend off the insurgency threatening her government's cohesion and authority. The Communist-backed guerrilla movement, thus far, has enjoyed its widest success in commodity-producing regions hard hit by unemployment. A more robust commodity sector would not only improve rural incomes but would also boost industrial expansion and reduce Philippine imports of some goods, primarily food.

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Implications for the United States in the fate of Philippine commodity production—beyond the political stability of an important Asian ally—will include:

- Manila's ability to handle payments on its \$26.6 billion in foreign debt, about one-fourth of which is held by US banks.
- The potential for new US investment opportunities in Philippine commodity diversification.
- The likelihood of increased Philippine imports of US industrial and consumer goods.

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The Aquino government has begun drawing up ambitious plans to expand commodity production and exports. Despite disagreements in other areas of policy, the government is united on the need to remove vestiges of the Marcos era that it believes have stifled needed modernization and diversification of farming, fishing, forestry, and mining activities. Primary ingredients in the Aquino plan include the breakup of monopolies, redistribution of arable land, encouragement of diversification away from traditional crops to underexploited potentially profitable crops, privatization of government entities controlling commodity marketing, reduction of bureaucratic redtape, and encouragement of foreign and domestic investment in rural areas. In its most dramatic moves so far, the government has broken up the coconut oil monopsony and has formulated a proposal to close one-third of the country's sugar milling operations in order to streamline the industry and cut government subsidies.

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The government program, nonetheless, faces several serious obstacles. Among the most pressing are:

- An overall weak commodity export market, characterized by low prices for most traditional Philippine products and fierce LDC competition for developed country markets.
- The Communist insurgency, which has frequently attacked farming and mining operations, harming the climate for investment.
- Continued smuggling operations, often aided by government corruption, which reduce profits and government tax revenues.
- Severe depletion of natural resources, especially timber.

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The overall outlook for Philippine commodities will depend on world market developments and on the Aquino government's ability to implement its plans for reform. Although the country's commodity export earnings will probably increase slightly this year, the potential for world prices to remain weak through 1990 heightens the need for major changes in commodity policies. Most likely, Manila's current efforts will meet with mixed success. Unless there is a sharp, across-the-board rebound in world commodity markets, we believe Philippine commodity export earnings—while not falling—will fail to rise much past \$2 billion, as compared with a peak of more than \$3 billion in 1980. A more substantial increase would require real growth in exports of more than 6 to 8 percent a year, a performance we believe even the implementation of the Aquino government reforms is unlikely to bring about. If commodity earnings do not rise substantially above the \$2 billion level, rural incomes will remain depressed compared with the early 1980s. This situation, in our judgment, would enhance the prospects for continued recruitment and operational activity by the New People's Army—the military arm of the Communist Party of the Philippines—particularly in the most depressed areas of Mindanao, Negros, and northern Luzon.

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Should the Aquino administration's consensus weaken regarding reform and should the insurgency remain relatively unchecked, investment in commodity diversification would decline below already inadequate levels. Commodity export earnings could fall between 1985 and 1990 by more than half a billion dollars, further undercutting Manila's ability to pay its foreign debt. Continued economic deterioration in the countryside, meanwhile, would strengthen the guerillas' recruitment efforts.

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Successful government followthrough on its commodity program—including a diminished insurgency—would probably attract new domestic and foreign investment in commodity industry diversification and modernization. In this case, and if world commodity prices rise, Philippine export earnings could increase by more than \$1 billion by 1990, giving a substantial boost to the entire economy.

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The Philippines: Prospects for Commodity Exports

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The Criticality of the Commodity Sector

Expansion of commodity export industries is critical to the Philippines' overall economic outlook. Despite advances in Philippine manufacturing industries, commodities remain a major component of the economy. According to Philippine statistics, crop and livestock agriculture, fisheries, forestry, and mining, including the food processing and metals components, have accounted for:

- Two-thirds of all Philippine employment, with agriculture alone providing 52 percent of all Philippine jobs.
- 27 percent of Philippine gross national product (GNP) in 1984, up from 26 percent in 1980.
- Almost 40 percent of the country's overall foreign exchange earnings in 1985.

In addition to Marcos's mismanagement, overborrowing from international creditors, and the growing insurgency in the countryside, the Philippines economy has been plagued by weak commodity prices. Depressed commodity export earnings have significantly increased underemployment which stands at one-fourth of the total rural labor force, according to our estimates. Similarly, current negative growth rates in Philippine GNP can be traced partly to declines in copper prices in 1982—which forced several Philippine companies to stop production—as well as to the persistent decline in sugar prices over the last few years and to the drought and typhoons of the early 1980s, which brought down overall agricultural production—particularly coconut output.

The weakness of the rural sector is also creating problems for the new government's efforts against the insurgency. Because most of the Philippine rural labor force is employed in commodity export industries, the guerrilla movement is recruiting heavily in provinces hard hit by cutbacks in employment. Embassy reports indicate, for example, that the rapid expansion of the New People's Army (NPA)—the military arm of the Communist Party of the Philippines—on the island of Negros has been based almost entirely on the collapse

of the sugar industry, which dominates the local economy. in parts of Samar, Leyte, southern Luzon, and other areas where coconuts are a critical source of income, the depressed state of the coconut industry has reduced the number of local young people who can afford to attend provincial colleges and high schools, correspondingly increasing the ranks of unemployed youths who are prime targets for NPA recruitment. In northeastern Luzon,

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NPA recruits have mostly come from the vast number of landless farm families displaced by the large plantation operations of close associates of former President Marcos. Similarly, because mining provides income for most people living in the isolated areas where mineral deposits are located, cutbacks in the industry have created a good environment for NPA recruitment in mineral-rich areas of Mindanao, Cebu, Negros, and northern Luzon.

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Policy Reform:

Overcoming the Marcos Legacy

Given the extreme political and economic importance of the commodity sectors, the Aquino government has publicly placed top priority on changing Marcos-era policies that discouraged increased output. high-level officials are united on the basic need for reducing the government's role in commodity industries, improving rural infrastructure, and enhancing production incentives. Land reform, breakup of key monopolies, and reduction of taxes are all on the Aquino agenda.

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The new government has a long way to go in removing vestiges of the Marcos regime. Faltering commodity production in the last five years, for example, is partly the result of government policies designed to protect monopolies in the processing and export of certain commodities controlled by close associates of former President Marcos. According to Embassy reporting,

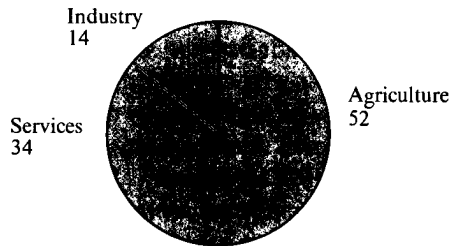
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Figure 1
Philippines: Employment, GNP,
and Exports^a

Percent

Philippines: Employment by Sector, 1983



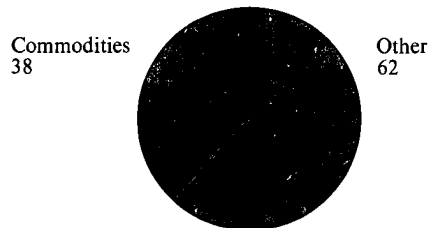
Total: 19.5 million people

Philippines: GNP by Sector, 1984



Total: US \$ 32.1 billion

Philippines: Commodity Exports as a Share of Merchandise Exports, 1985



Total: US \$ 4.6 million

^aSource: NEDA Statistical Yearbook, 1985.^bIncludes crop and livestock agriculture, fisheries, forestry, and mining.

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the monopolies have diverted profits from small farmers and independent copper mining operations, discouraging increased farm production and mine expansion and modernization. In addition, chronically low investment has led to breakdowns in infrastructure. Deteriorating roads, high telecommunications costs, and frequent power failures have all inhibited efficient commodity production and marketing operations.

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Government intervention in the pricing and marketing of all major crops and basic farm inputs, such as fertilizer, has produced a growing gap between production costs and prices received by farmers. According to World Bank reports, the Central Bank has encouraged banks to lend more to industry at the expense of the farm sector, and farm loans have failed to reach smaller farmers because of high interest rates and requirements for collateral. According to Embassy reports, the government's record on purchasing enough rice and corn to keep domestic prices stable has been poor, and this has reduced farm incentives. In addition, government-subsidized irrigation has been available mostly to large operations.

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Distortions of production incentives have been compounded by trade policies designed to promote certain inefficient industries. To reserve cheap raw materials for these endeavors, the export of some commodities—such as raw coconut—has been banned, and the export of others—copper concentrate, for example—has been restricted. According to Embassy reports, rigidities in export regulations, such as minimum export prices on coconut oil and limits on exports of copper ore, have made it difficult for Philippine exporters to respond to market forces. Requirements for official documentation have burgeoned, and a huge, corrupt bureaucracy has grown up to enforce controls on international trade. Moreover, unexpected policy shifts, poor transportation, and difficulties in obtaining farm inputs have hampered Philippine ability to meet the terms of contracts consistently, giving the country a spotty reputation as a supplier.

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Philippine Commodity Export Performance in 1985

Overall 1985 Philippine commodity export earnings were down \$447 million (20 percent) from 1984 levels, with fisheries registering the only increase.

were down by more than one-half, largely because of the sharp reduction in the official export volume of premium lauan logs, and foreign sales of plywood and veneer continued to contract in the face of stiff competition from Indonesia and Malaysia.

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Foreign exchange earnings of \$459 million from coconut products accounted for about 10 percent of all 1985 Philippine merchandise export earnings, according to Philippine Government statistics. This amount was down by 31 percent from the \$727 million earned in 1984, however, as low world prices negated a 13-percent increase in export volume. Coconut oil accounted for the bulk of earnings, with sales of 622,000 metric tons worth \$329 million. Exports of copra, the oil-bearing meat of the coconut, continued to be banned by the government.

Fresh or preserved fish exports earned \$99 million, up 46 percent from 1984. Aggregated fish product exports, including those in airtight containers, amounted to a record \$149 million.

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Earnings from coffee totaled \$71 million, down 9 percent from 1984, while earnings from tobacco totaled only \$28 million, the lowest level since 1977, reflecting lower volume and world prices.

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Sugar earnings totaled \$185 million, down 34 percent from 1984, accounting for only 4 percent of the total value of Philippine merchandise exports, compared with a share of more than 25 percent a decade ago. The steep decline in earnings is attributable to continued low world prices and a 35-percent decline in production as a result of weakening incentives to export.

In 1985, the Philippines made advances in value-added products, while falling back in several raw commodity export earnings. For example, abaca fiber export earnings of \$16.5 million were down by almost one-half from 1984, while exports of abaca products, such as rope and paper, were much improved, and total exports reached \$37 million. Copper concentrate earnings fell 27 percent, from \$115 million in 1984 to \$84 million in 1985, as export volume dropped 24 percent. Copper metal exports, however, jumped 51 percent in 1985 to \$167.5 million from \$110.8 million in 1984, despite an 8-percent price decline.

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The volume of fresh banana exports declined by more than 1 percent in 1985 to 789,000 tons, according to official government statistics, and earnings fell by 7 percent to \$113 million. Production was down by 3 percent, to 3.7 million tons, the lowest level since 1979, largely as a result of the negative impact of NPA operations on harvesting in Mindanao, the main growing area. Earnings from pineapple rose nearly 6 percent, from \$121 million in 1984 to \$128 in 1985, as a result of an 8-percent increase in volume of exports.

Although volume of gold exports rose 9 percent, foreign exchange earnings slipped 4 percent from \$104 million in 1984 to \$100 million in 1985, reflecting a 12-percent world price decline.

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Earnings from chrome plunged 29 percent to \$14.5 million in 1985, as volume fell 35 percent.

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Commodity exports from the Philippine forestry sector totaled only \$199 million in 1985, down 27 percent from the previous year. Log export earnings

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Specific Plans for Reform

In order to address the basic problems of inadequate investment, limited product diversification, and stifling bureaucracy, Aquino government officials have already outlined plans to:

- *Break up the sugar and coconut monopolies, encourage growth of competition among smaller private growers and millers, and make marketing entities accountable to growers.*
- *Repeal or reduce some taxes on essential inputs for agricultural production, as well as some taxes on agricultural exports.*
- *Develop a new program of land redistribution, and encourage sugar growers to sell some excess or undercut acreage.*
- *Minimize government participation in agricultural production and pricing and transfer government-controlled businesses to the private sector.*
- *Reorganize and consolidate the Ministry of Agriculture and cut down on bureaucracy and documentation.*
- *Streamline the rural banking system to reestablish the flow of equity capital and make government loans accessible to small farmers by lowering interest rates and collateral requirements.*
- *Promote foreign investment in large-scale agricultural development by setting up a government equity capital fund, with World Bank assistance, to supply equity in agricultural joint ventures, and by implementing new investment policies allowing increased foreign participation in direct investment in export-oriented industries.*
- *Encourage diversification, through market guarantees, to crops that can be exported more profitably than the commodities currently emphasized.*

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First Steps. Against this background, the Aquino government's approach to changing commodity policy is wide ranging. According to Embassy reports, the official consensus is that streamlining and increasing the productivity of traditional commodity export industries, coupled with diversification into new ones, is a key objective in boosting rural employment and that a substantial reduction of government redtape and expansion of infrastructure are essential means to that end.

The Aquino government has moved quickly and even boldly on some aspects of reform, with monopolies and government bureaucracy among the primary targets. As one of its first acts, according to Embassy reporting, the government placed the Philippine Coconut Authority (PCA), which is responsible for regulating the industry, under the Ministry of Agriculture. The PCA had traditionally been directed by a board made up largely of industrialists and wealthy plantation owners, even though a large proportion of coconuts are grown by small farmers. The government has

also ordered an investigation of the Philippines' largest bank, United Coconut Planters Bank (Cocobank), through which government lending to the industry has been channeled. The assets of the former Cocobank President, Eduardo Cojuangco, Jr., a longtime Marcos friend and key financial backer, have been frozen, and agribusinesses linked to him and other Marcos associates are now under government control.

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The new government is moving on several other fronts to reform the agricultural bureaucracy and return entities nationalized by Marcos to the private sector. The sale of the Philippine Cotton Corporation and the Philippine Dairy Corporation, both organized to reduce imports and develop rural industry, was recently accomplished by public auction. Meanwhile, Philbai, a livestock and meat-importing cartel, has been dismantled by presidential order, according to press

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sources. In addition, the Ministry of Agriculture is being reorganized, and new high-level posts have been created to oversee a program of land reform and to restructure the agricultural credit system. []

The Aquino administration has also begun the difficult process of encouraging farmers to divert acreage planted to sugar to more profitable crops and has proposed the closure of underutilized sugar mills. According to World Bank reports, reduced world demand for sugar will require diversion to alternative—preferably labor-intensive—crops and the development of new processing industries to employ displaced sugar mill workers, particularly in areas hard hit by proposed mill closings, such as Negros and Mindanao. Reallocation of land to small farmers and incentives to grow crops such as corn, rice, and cotton—which have been imported in recent years—as well as perennial tree crops, could significantly reduce a \$500 million annual agricultural import bill and stimulate domestic industries such as textiles, poultry, and food processing. []

In one of the government's most dramatic and politically unpopular policy shifts, officials announced in April the proposed closing of 14 of the most unprofitable of the country's currently operating 39 sugar mills, according to press reports. While this step is necessary, this move would most likely be politically risky in the short run, particularly since several of the affected mills are located in areas where the insurgency is relatively strong. On the basis of government data, we estimate the move will probably reduce sugar acreage by 140,000 hectares and force 115,000 farmworkers and 7,000 to 11,000 millworkers out of work. To minimize this negative impact, planters in the affected areas will receive government support in diversifying to other crops, according to a recent statement by the Ministry of Agriculture. The targeted mills, many of which were financed through the Philippine National Bank by Marcos crony Roberto Benedicto, will be dismantled and parts sold to help defray government losses. []

Although the government has not announced policies for the mining sector, Philippine firms are formulating recommendations to aid the floundering industry.

According to Embassy reports, these recommendations, to be presented to the government within a few months, are expected to include a reduction in export taxes, liberalized exports of copper ore, and abolition of disincentives to joint mining ventures such as limits on foreign participation. Despite the Aquino government's orientation toward privatization, the Philippine Association of Smelting and Refining (PASAR), the country's only smelting operation, is expected to retain its present operational structure as an international joint venture involving government participation, []

In trade policy, the new government has begun to remove constraints on commodity exports instituted during the Marcos years. It plans to reduce licensing and documentation requirements for traders and to overhaul the export tax system. A government ban on the export of copra, the oil-bearing meat of the coconut, has been lifted to allow prices to growers to rise on the strength of competition among foreign and domestic processors. An interagency task force will be formed to design a program to combat smuggling and to monitor operations and licensing at logging and gold panning sites. In the sugar sector, President Aquino recently created the Sugar Regulatory Administration (SRA) replacing the Philippine Sugar Commission (PHILSUCOM) and withdrew the sole export trading authority of the Philippine Sugar Marketing Corporation (PHILSUMA). Under SRA's mandate, the free trading of sugar will be permitted in both the domestic and foreign markets—a significant change from the Marcos era. According to Embassy reporting, SRA will focus on regulating domestic sugar production. Although it claims to oppose protectionist measures, the government has backed off from the large-scale import liberalization called for by the International Monetary Fund. Nonetheless, it does plan to dismantle the bureaucracy that has enforced intricate regulations designed to protect domestic industries. []

Obstacles To Overcome

Despite the Aquino government's intentions to boost commodity output in order to expand rural employment and hard currency exports, several substantial obstacles stand in the way. []

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Figure 2
Sugar Mills and Communist New People's Army (NPA) Operating Areas



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Opportunities for Diversification in Philippine Commodities

Switching to production of less traditional commodities and modernizing and diversifying commodity processing industries hold strong potential for increased exports and import substitution. According to several experts, the Philippines, like many other LDCs, would do well to follow this path:

- *A World Bank study indicates considerable potential for an increased Philippine share in the growing world market for tropical fruit juices with diversification into such exotic fruits as papaya, passion fruit, and guava.*
- *Perennial tree crops, especially rubber, oil palm, cacao, black pepper, and even hybrid coconuts, have attractive potential as labor-intensive export crops. Studies of the prestigious Philippine Center for Research and Communication indicated potential for an additional 500,000 hectares of rubber, nine times the present acreage, and 100,000 to 150,000 hectares of cacao or nine to 14 times the present area. The islands of Mindanao, Palawan, and Negros are the prime areas for expansion of these crops.*
- *Increased use of multiple-cropping systems is being encouraged to increase returns per unit of land area. Philippine agronomists have identified systems where aging coconut plantings can be successfully multicropped with shade-tolerant varieties of cacao and coffee.*
- *Expanded exports of aquaculture seafood, especially in nearby markets such as Japan, could increase annual fishery earnings by one-third, according to the Southeast Asian Fisheries Development Center, creating an estimated 300,000 additional jobs.*
- *Diversification into copper fabrication—a step beyond smelting and refining—was a longer term option considered when PASAR, the government-controlled copper smelter, was in the planning stage. Plans included a fabrication plant that was subsequently put on hold because of financing shortfalls.*
- *Expansion in exports of processed metals, such as smelted nickel, is a near-term possibility, with the rehabilitation and modernization of nickel refining plants already under way. In addition, iron ore agglomerate exports provide an area for continued export expansion.*
- *[redacted] increased efficiency in tin plate production would allow domestic supplies to canning industries to increase, supplanting imports from Japan. [redacted]*

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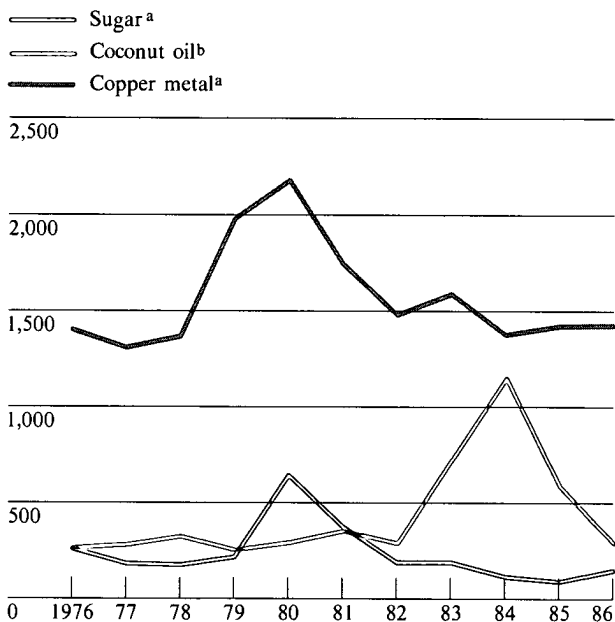
Sluggish world trade and structural changes in commodity markets are weakening the demand for Philippine products and presenting the strongest challenge to revival of the Philippine rural sector. As a relatively small supplier in most world commodity markets, the Philippines exerts little influence on price movements. Even though the Philippines is the dominant world supplier for coconuts and pineapple, events that tighten supplies and drive prices up—for example, substantial crop losses—are quickly offset by importers'

switching to alternative fats, oils, and fruits. Continued shifts in consuming countries toward substitute commodities—alternative sweeteners for sugar, polypropylene rope for abaca, palm kernel oil for coconut oil—or cheaper raw materials have seriously eroded the markets for traditional Philippine exports. In addition, other Asian traders are now producing many

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Figure 3
World Prices for Key Philippine
Commodity Exports, 1976-86

US \$ per metric ton



^aPrices through May 1986.

^bPrices through 15 May 1986.

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of these products, increasing the available supply and putting downward pressure on prices. Largely as a result of insufficient investment in export industries over the last decade, Philippine value-added products—plywood, coconut oil, canned fruit—are for the most part losing out in the competition with similar products from Malaysia, Indonesia, and Thailand.

Import barriers in developed country markets have contributed substantially to the stagnation and contraction of Philippine commodity export revenues and

are likely to undercut even the most aggressive government efforts to make Philippine commodities more competitive. Among the trade barriers affecting Philippine commodity trade are the US sugar import quota and ban on imports of Philippine fresh fruit and vegetables, the European Community tariff on coconut oil, and the Japanese tariff on plywood.

The *insurgency* is also posing a serious threat to the Aquino government's efforts to expand commodity production. Most important, guerrilla activities are dampening domestic and foreign investment in the countryside and causing foreign buyers to question dependence on Philippine commodities. According to Embassy reports, increased operating costs stemming from activities of the NPA and the Bangsa Moro Army—such as bribes to avoid disruptions in operations and beefed-up security measures—are a heavy burden for industries already facing severe financial problems because of the general decline in world commodity prices. A considerable amount of capital, which would normally flow into numerous expansionary projects in the mining sector and into under-utilized agricultural areas, such as Mindanao, is being held up by investor fears about security.

some buyers of Philippine agricultural commodities, such as abaca, are encouraging production in other countries, such as Indonesia, to counter potentially reduced access to Philippine supplies.

Other examples of the insurgency's negative impact on the commodity export sector include the following:

- Philippine officials report that the country could take better advantage of the current boom in global coffee prices if production could be expanded in the contested mountain areas of Mindanao.

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Japanese-Philippine Trade Relations

Japan ranks with the United States as a leading importer of Philippine raw and processed commodities. Japan purchases most of its fresh bananas and pineapples from the Philippines and much of its coconut oil and forest products. In minerals, copper ore in particular, the Philippines is a strategically important supplier, and Japan ensures a steady flow of minerals from the Philippines by offering high prices and other incentives. [redacted]

The Philippines annually sends 80 to 90 percent of its copper exports to Japan and, in 1985, sent all of its nickel exports to Japan. According to Japanese Government trade figures, the Philippines registered a positive trade balance with Japan in 1985, as exports (two-thirds in commodities) exceeded imports (primarily of articles for heavy industry) by \$306 million. [redacted]

Japan, an important investor in the Philippines, is a leading source of loans and economic aid. In 1984, according to CIA estimates, about 45 percent of foreign investment, 7 percent of private bank lending, and 15 percent of foreign development aid was Japanese in origin. Japan has become the biggest donor of

funds to finance Philippine infrastructure projects. Tokyo's economic aid, for the most part closely tied to Philippine imports of Japanese goods and services, has done much to deeply involve Japan in the Philippine economy. The close relationship of the Marcos government to favored Japanese commercial interests, as well as disposition by the government of Japanese aid funds, is now under scrutiny by Japanese officials and the Aquino government. [redacted]

Soon after taking office, the Aquino government indicated a strong interest in improving ties to Japan, requesting Japanese investments in Philippine agriculture and rural industry. Japan sent a high-level delegation to the Philippines in March to meet with Finance Minister Jaime Ongpin to discuss Philippine economic policy and Japanese plans for expanding aid to the Philippine rural sector. The new government has also petitioned Tokyo for increased access to Japanese markets, including expanded plywood imports, raising of the import quota for canned pineapple, and liberalized quality and health inspection procedures for fresh fruit. [redacted]

• [redacted] both Philippine and foreign investors are retreating rapidly from places, such as Davao, heavily affected by the insurgency.

• In northeastern Mindanao, where coconuts and timber comprise the backbone of the economy, mining by guerrillas of roads and bridges, industrial sabotage, and ambush activities have discouraged coconut harvesting and lumbering operations, according to Embassy reporting.

• In southeastern Luzon and northern Panay, [redacted] local businessmen complain of the negative effect of NPA activities on local investment. [redacted]

A few bright spots in the insurgency picture have appeared. The Aquino government, for example, has taken initial steps to provide secure areas for agricultural and mining operations. [redacted]

[redacted] At the same time, the NPA itself apparently has grown aware of the negative effect on its image created by sabotaging jobs and commodity operations. Although insurgents are present in the pineapple-growing areas of Mindanao, for example, they generally do not disturb the pineapple crop or the employees of the big

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local processing industry for fear that the resulting economic dislocation would alienate people in the area, according to Embassy reporting. Nonetheless, the NPA in general shows no signs of substantially easing its campaign to disrupt rural economic activity. [redacted]

Other constraints on the Aquino government's attempts to reverse the depressed conditions in the commodity sector include smuggling and resource depletion. *Smuggling operations* facilitated by the military and, in the case of gold, by the NPA as well, are siphoning off profits from rural processing industries and depriving the government of significant tax revenues and foreign exchange. [redacted]

[redacted] the government lost an estimated \$660 million in gold smuggled out over the past three years; the smuggling of tropical hardwood logs cost more than \$90 million in uncollected taxes and \$363 million in unremitted foreign exchange earnings during the same period. [redacted]

Extensive depletion of rural resources—especially timber—and of government development funds during the Marcos years is proving to be a major constraint on rapid expansion of commodity export industries. Some forestry experts estimate that Philippine tropical timber resources could be exhausted as early as 1988 if annual timber exploitation continues at the rate of the past decade. In the area of government development financing, shortfalls are evident in government extension and credit funds, as well as in strategic industries such as sugar and coconut. The Aquino government has deferred about \$50 million of 1986 infrastructure construction because of budgetary restraints. Ministry of Food and Agriculture field operations have been halted and funds frozen to assess resources and plan for reorganization and consolidation of the Ministry. According to press reports, the Commission on Good Government estimates that the National Sugar Trading Corporation, the government's sugar body during much of the Marcos era, may have cheated sugar producers by over \$1 billion in the last 10 years, and investigations

are beginning into the improper disbursement of the entire \$500 million coconut levy fund, collected from farmers and exporters to finance extensive replanting operations. [redacted]

These constraints are likely to be accentuated by losses in *investor confidence*, which will probably suffer not only from the above problems but also from uncertainty about the government's longer term policies. Proposed land redistribution and Manila's uncertain position on labor issues, for example, have added to foreign investors' existing concern over the insurgency, according to Embassy reporting. Australian investors ready to substantially expand their interests in Philippine mining have held off following anticapitalist statements by Minister of Labor and Employment Sanchez and recent labor protests at mines in Surigao del Norte. Agriculture Minister Mitra, with planned land reform in mind, has suggested that established US multinationals eventually buy most of their produce from small, private farms rather than expand existing pineapple plantations to obtain larger economies of scale. [redacted]

Prospects for Commodity Earnings in 1986

Commodity sector prospects for this year are moderated by the many constraints on production and exports. We estimate, on the basis of Philippine Government statistics, that aggregate commodity earnings will be up about 8 percent from 1985, reaching \$1.89 billion—but still well under the \$2 billion plus level of 1983 and 1984. While we expect earnings from copper and gold to improve slightly, agricultural exports will continue to be limited by depressed international prices and by foreign buyers' uncertainty about the future direction of Philippine Government policy:

- *Coconut* earnings, comprising some 10 percent of Philippine exports, will probably be only slightly higher than last year—despite significant volume

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Table 1
Philippines: Volume, Price, and Value of
Selected Commodity Exports, 1977-86

	1977	1978	1979	1980	1981	1982	1983	1984	1985	Estimated 1986
Coconut oil, crude										
Volume (1,000 metric tons)	714	962	743	874	984	866	933	555	622	1,150
Price (\$ per metric tons)	532	608	919	614	510	432	509	977	529	285
Value (million US \$)	380	585	683	537	502	374	475	542	329	328
Coconut, desiccated										
Volume (1,000 metric tons)	98	91	86	87	86	90	89	77	65	90
Price (\$ per metric tons)	918	901	1,244	1,333	1,186	756	989	1,383	1,169	600
Value (million US \$)	90	82	107	116	102	68	88	106	76	54
Copra meal and cake										
Volume (1,000 metric tons)	436	535	548	545	620	589	551	365	444	600
Price (\$ per metric tons)	133	129	157	149	131	122	131	112	81	50
Value (million US \$)	58	69	86	81	81	72	72	41	36	30
Copra										
Volume (1,000 metric tons)	635	365	145	121	108	178	16			140
Price (\$ per metric tons)	316	373	614	388	315	275	250			200
Value (million US \$)	201	136	89	47	34	49	4			28
Sugar, raw centrifugal										
Volume (1,000 metric tons)	2,419	1,124	1,150	1,602	953	1,096	842	841	446	380
Price (\$ per metric tons)	209	175	184	348	436	338	315	284	325	303
Value (\$ million US \$)	506	197	212	557	416	370	265	239	145	115
Bananas, fresh										
Volume (1,000 metric tons)	693	776	859	923	869	927	643	800	789	825
Price (\$ per metric tons)	105	108	113	124	143	157	163	153	143	148
Value (million US \$)	73	84	97	114	124	146	105	122	113	122
Pineapples, canned										
Volume (1,000 metric tons)	154	162	189	187	174	171	146	171	185	194
Price (\$ per metric tons)	364	370	392	438	511	515	507	509	481	505
Value (million US \$)	56	60	74	82	89	88	74	87	89	98

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Table 1 (continued)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	Estimated 1986
Logs, lauan										
Volume (<i>1,000 cubic meters</i>)	2,045	2,210	1,248	715	705	752	786	846	454	710
Price (\$ <i>per cubic meters</i>)	66	66	115	129	108	105	94	104	86	93
Value (<i>million US \$</i>)	135	146	144	92	76	79	74	88	39	66
Lumber										
Volume (<i>1,000 cubic meters</i>)	457	573	915	742	547	591	728	537	507	610
Price (\$ <i>per cubic meters</i>)	147	148	216	244	230	210	205	199	178	187
Value (<i>million US \$</i>)	67	85	198	181	126	124	149	107	90	114
Plywood										
Volume (<i>1,000 cubic meters</i>)	221	368	393	344	371	241	294	246	238	289
Price (\$ <i>per cubic meters</i>)	186	196	272	323	299	278	258	228	214	227
Value (<i>million US \$</i>)	41	72	107	111	111	67	76	56	51	66
Copper, concentrates										
Volume (<i>1,000 metric tons</i>)	1,007	895	1,048	1,140	1,139	1,060	788	450	344	346
Price (\$ <i>per metric tons</i>)	266	279	420	478	377	294	316	255	245	260
Value (<i>million US \$</i>)	268	250	440	545	429	312	249	115	84	90
Gold										
Volume (<i>1,000 troy ounces</i>)	513	412	367	420	476	473	367	295	323	340
Price (\$ <i>per ounce</i>)	138	184	281	569	452	357	420	353	310	345
Value (<i>million US \$</i>)	71	76	103	239	215	169	154	104	100	117



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increases—as a result of sharply lower world prices. Moves by Manila to dismantle the coconut oil monopsony, including ending the ban on copra exports, should lead to higher prices at the farm level and a drawdown of the high level of copra stocks. However, Philippine exports of copra, the raw material from which coconut oil is milled, are now competing for the same limited market as Philippine coconut oil exports, which will further soften prices in European markets. In addition, foreign copra buyers may turn to other coconut producers, such as Indonesia and Sri Lanka, because of uncertainty about future Philippine Government policy on copra exports. Finally, Philippine coconut products face weak world prices and a world awash in coconut oil substitutes, such as soybean and palm oil.

- In other agricultural, forestry, and fisheries products, only sugar earnings will continue to contract in 1986 as a result of reduced domestic production and a further reduction in the amount allowed into the United States. We believe timber earnings will be up by about one-third as increased housing starts in the United States and Japan place upward pressure on world prices. Although the Aquino government has announced its intention to ban log exports as a conservation measure, any losses in earnings will probably be offset by higher processed wood exports. We also expect fish exports to expand as a result of firm world prices and increased demand. Banana export volume and value will probably remain at levels achieved before the 1983 drought because principal markets in Japan are saturated, but pineapple exports are likely to increase, owing largely to improved supplies as producing areas recover from the drought. With the global boom in coffee prices, Philippine coffee earnings should hit record levels.
- Mineral export earnings will probably rise only slightly, in spite of expected increases in world prices, because of limited Philippine production capabilities. With copper industry experts expecting world copper metal prices to increase from 64 to about 68 cents per pound, Philippine production, which requires 70 to 75 cents per pound to break

Table 2 Million US \$
Philippines: Commodity Exports
by Major Commodity Groups, 1983-86

	1983	1984	1985	1986 ^a
Total	2,348	2,189	1,744	1,890
Coconut products	680	727	459	462
Sugar and molasses	316	279	185	140
Bananas and pineapples products	207	243	241	260
Other crop and livestock products	242	288	268	300
Fishery products	132	115	149	194
Forestry products	331	271	199	270
Minerals	440	267	243	264
Total merchandise exports	5,005	5,391	4,629	4,555
Commodity exports as a share of merchandise exports (percent)	47	41	38	41

^a Estimated.

even, may rebound somewhat. The world price of gold is expected to rise from \$317 to \$400 per ounce, according to industry analysts, and Benguet Corporation, the major Philippine producer, is planning to increase output. The export picture for chrome seems static because Philippine production will be limited by continuing cash flow problems in the industry, as well as mine inefficiencies.

Longer Term Outlook

Looking beyond this year, we believe the Aquino government will face stubborn obstacles in trying to boost the commodity sector over the rest of the decade. If world commodity prices remain depressed through 1990, as most observers expect, export earnings will be dampened and much-needed investment discouraged. Similarly, the NPA insurgency, a major factor behind government efforts to increase rural employment, will probably continue to hinder expansion of commodity production. To provide some

bounds on our expectations for the Philippine commodities sector over the rest of this decade, we have constructed three performance scenarios: a most likely, worst, and best case. []

The *most likely* scenario, in our view, incorporates relatively weak international commodity prices but also assumes some success in the Aquino government's pursuit of commodity industry reform. This outcome would produce an average growth rate of more than 5-percent annually in commodity exports, increasing earnings from \$1.7 billion in 1985 to \$2.2 billion in 1990. As in the best case, commodity export growth would probably be led by nontraditional agricultural products as well as resurgence in earnings from some major traditional exports. Unfortunately, if commodity earnings do not rise substantially above the \$2 billion level, rural incomes will remain depressed compared with the early 1980s. This situation, in our judgment, would enhance the prospects for continued recruitment and operational gains by the NPA insurgency, particularly in the most depressed areas on Cebu, Negros, northern Luzon, and Mindanao. []

In the *worst case*, we believe the prospects for Philippine commodity export earnings and rural employment would be seriously clouded if the Aquino government failed to stem corruption within the bureaucracy and the military and if its commodity policies were undermined by a significant deterioration of security in the countryside. A bolder and more aggressive NPA could further discourage private-sector investment in a number of areas, particularly in Mindanao. Continued government corruption would discourage investment while directly reducing export earnings. Of particular concern would be illegal logging and smuggling activity and the further destruction of tropical hardwood forests, which would also diminish earnings from the wood manufactures and furniture export industries. Such problems almost certainly would be aggravated if current tensions within the Aquino government intensified, reducing its resolve or ability to carry out needed changes. []

Table 3
Philippines: Forecast Growth in Commodity Exports

Commodity Item ^a	1990	
	Worst Case	Best Case
Coconut oil, crude		
Volume (1,000 metric tons)	648	1,200
Price (\$ per metric tons)	300	600
Value (million US \$)	194	720
Sugar, raw centrifugal		
Volume (1,000 metric tons)	301	545
Price (\$ per metric tons)	345	440
Value (million US \$)	104	240
Banana, fresh		
Volume (1,000 metric tons)	743	1,200
Price (\$ per metric tons)	105	150
Value (million US \$)	78	180
Pineapple, canned		
Volume (1,000 metric tons)	176	273
Price (\$ per metric tons)	370	550
Value (million US \$)	65	150
Logs, lauan		
Volume (1,000 cubic meters)	347	445
Price (\$ per cubic meters)	75	135
Value (million US \$)	26	60
Copper, concentrates		
Volume (1,000 metric tons)	258	389
Price (\$ per metric tons)	240	370
Value (million US \$)	62	144

^a These six commodities accounted for 46 percent of total commodity export earnings in 1985.
^b World commodity price forecasts are based on [] the World Bank, and CIA analysis. Assumptions concerning growth in Philippine commodity production are derived from USDA and Embassy reporting and World Bank and CIA analysis.

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US-Philippine Commodity Trade Relations

Philippine exports to the United States, which accounted for about one-third of total annual merchandise export sales for the period 1981-84, averaging \$1.78 billion annually, have a large commodity component. Coconut oil, canned pineapple, and sugar are the major exports to the United States, followed by forest products and chrome ore. With fresh fruit and vegetables from the Philippines prohibited from entering the United States under sanitary regulations, future growth in commodity exports is likely to come in processed food products. Philippine imports from the United States have roughly matched exports in recent years, averaging \$1.7 billion annually for the period 1981-84. Imports from the United States, dominated by wheat, cotton, and tobacco, have accounted for about 26 percent of all Philippine merchandise imports in recent years. []

Trade is facilitated by the strong presence in the Philippines of numerous US-headquartered multinational companies, such as Proctor and Gamble, Cargill, Dole, and Del Monte, which are major actors in

commodity trade and important employers. Despite longstanding operations in the Philippines, these companies are likely to maintain a low profile in deference to Philippine political sensitivities. Del Monte officials, for example, state their reluctance to consider expanded pineapple acreage in the Philippines, largely out of apprehension about being branded "land grabbers" by left-leaning officials of the Aquino government such as Minister of Labor Sanchez, who castigates multinationals for exploitation of Philippine resources. Nevertheless, Del Monte appears committed to company operations in the Philippines. [] the company is currently investing in technologically advanced cannery equipment at the Mindanao flagship plant, which processes an increasing variety of pineapple and mixed fruit and tropical juice products for export. []

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Under these conditions, Philippine commodity export earnings could be reduced from \$1.7 billion currently to \$1.0-1.5 billion annually by 1990—almost \$1 billion short of the amount needed to pay the current annual interest charges on the Philippine debt. Continued deterioration of the rural economy—including increased unemployment and civil disorder—would be likely and, in turn, could contribute to serious erosion of the Aquino government's authority. []

In the best case, Philippine commodity production and exports could boom with stronger prices for coconut products, sugar, and copper; significant reduction of government and military corruption; and reduced insurgent activity. Also required would be continued government resolve and success in promoting substantial diversification of commodity exports and markets, including facilitated purchase of yield-enhancing inputs to expand agricultural production rapidly. Under such circumstances, we believe that foreign and domestic investment in agriculture and

mining would increase, accelerating the process of rural economic improvement. Key sources of growth in such a recovery would be nontraditional fish, fruit, and vegetable exports. Forestry products, coconut, and sugar would also expand, reflecting improved export performance as a result of more efficient industry operations. []

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Rural employment would increase, strengthening the government's political position in the countryside. On the financial side, Philippine foreign exchange earnings from commodity sales could grow to more than \$3 billion by 1990. The increase in foreign exchange earnings would generate more investment capital for the economy and the financial resources to buy raw materials and capital goods for industrial expansion. Service of the Philippine debt would be facilitated, although increased commodity earnings alone would

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not solve the country's debt payment problems. Meanwhile, diversified commodity output could aid Manila's external payments situation by reducing the need for some imports, such as certain types of food.

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Implications for the United States

In addition to influencing the political stability of an important Asian ally, Manila's success or failure in carrying out its commodity program will affect a range of US economic interests. Should the rural economy continue to deteriorate, for example, unemployment and civil disorder almost certainly would increase, contributing to:

- Significant losses to US investors in the Philippines.
 - Interruption of the flow of raw materials to US industries.
 - Increased problems for US banks, which carry 25 percent of the \$26.6 billion Philippine foreign debt.
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A successful Philippine effort to expand commodity exports, on the other hand, could provide economic gains for the United States. Adverse trade effects on the United States of increased Philippine exports would be minor—since Philippine products generally do not compete with US domestic production—but US business could benefit. In particular, such an expansive environment would provide increased investment opportunities in tropical foods and in the processing of copper, chromium and nickel ores. Philippine demand for US industrial goods—particularly heavy industrial machinery and electrical equipment—would probably increase as a result of expanded economic activity encouraged by increased commodity output. As incomes rose, Philippine purchases of US wheat and other foodstuffs and consumer goods could rise.

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Appendix

Overview of Selected Commodity Sectors

Coconut Industry

The Philippine coconut industry, which provides 75 percent of world exports of coconut products, has been weakened by a trend to cheaper substitutes, such as palm oil. Demand is declining, and prices fell to an average of \$590 per metric ton in 1985, according to World Bank estimates. Coconut oil prices are expected to decline through 1987, then experience a slight upturn toward the end of the decade, according to World Bank projections. []

For the 17 million Filipinos—roughly one-third of the total population—who depend on coconut for part of their livelihood, depressed conditions in the industry during the last few years have meant layoffs in coconut factories and economic hardships for small farms. Coconut production has been on a downward trend since the early 1980s as a result of weather damage to trees and the general failure of replanting programs. Lacking price incentives, small farmers have replanted almost no coconut trees, and government replanting programs have been underfunded and plagued with charges of corruption and malfeasance. Because of the trees' relatively long gestation period, a replanting program undertaken now would not produce significant results until the 1990s. []

Sugar Industry

Sugar production has long been a dominant industry in the Philippine rural sector in terms of employment, area under cultivation, and export earnings. The industry currently employs some 500,000 people and provides at least part of the livelihood of almost 3 million people, according to the Philippine Center for Research and Communication (CRC). While sugarcane is grown in many parts of the Philippines, production is concentrated on the island of Negros, which last year accounted for 55 percent of the 1.7 million tons produced nationally. []

Since the boom years—the mid-1970s and early 1980s, when world sugar prices were high and sugar

accounted for as much as 28 percent of total Philippine export earnings—the industry has been on a downward spiral. The 1986 crop is currently forecast at 1.4 million tons, down 300,000 from last year and the annual average of 2.4 million tons for the previous decade. Export earnings, which dipped under \$200 million in 1985, are likely to be even lower this year. In sharp contrast to the past, almost two-thirds of sugar revenues are likely to come from the domestic market. []

In our judgment, the decline of the Philippine sugar industry has been caused not only by falling world prices but also by structural and organizational problems and gross misdirection and corruption of the industry during the Marcos era. Because of a lack of credit and price incentives, sugar planters—mostly small farmers—have failed to take advantage of new technologies to improve yields. The indiscriminate establishment of sugar mills, unaccompanied by a corresponding expansion in farm production, has created a considerable redundant capacity, and mills have to scramble for cane to maintain operations. []

Timber Production and Trade

The Philippine timber industry, which accounted for 20 percent of all export earnings in 1972, accounted for only 4 percent in 1985. A steep falloff in production and exports over the last several years reflects the deterioration of the Philippines' rich tropical forest resources as a result of overexploitation, lack of sufficient reforestation, and illegal logging activities. The once-prosperous wood products industry has become uncompetitive in world markets in terms of quality and relative prices. For example, [] domestic sawmills operating with deteriorated and inefficient equipment have

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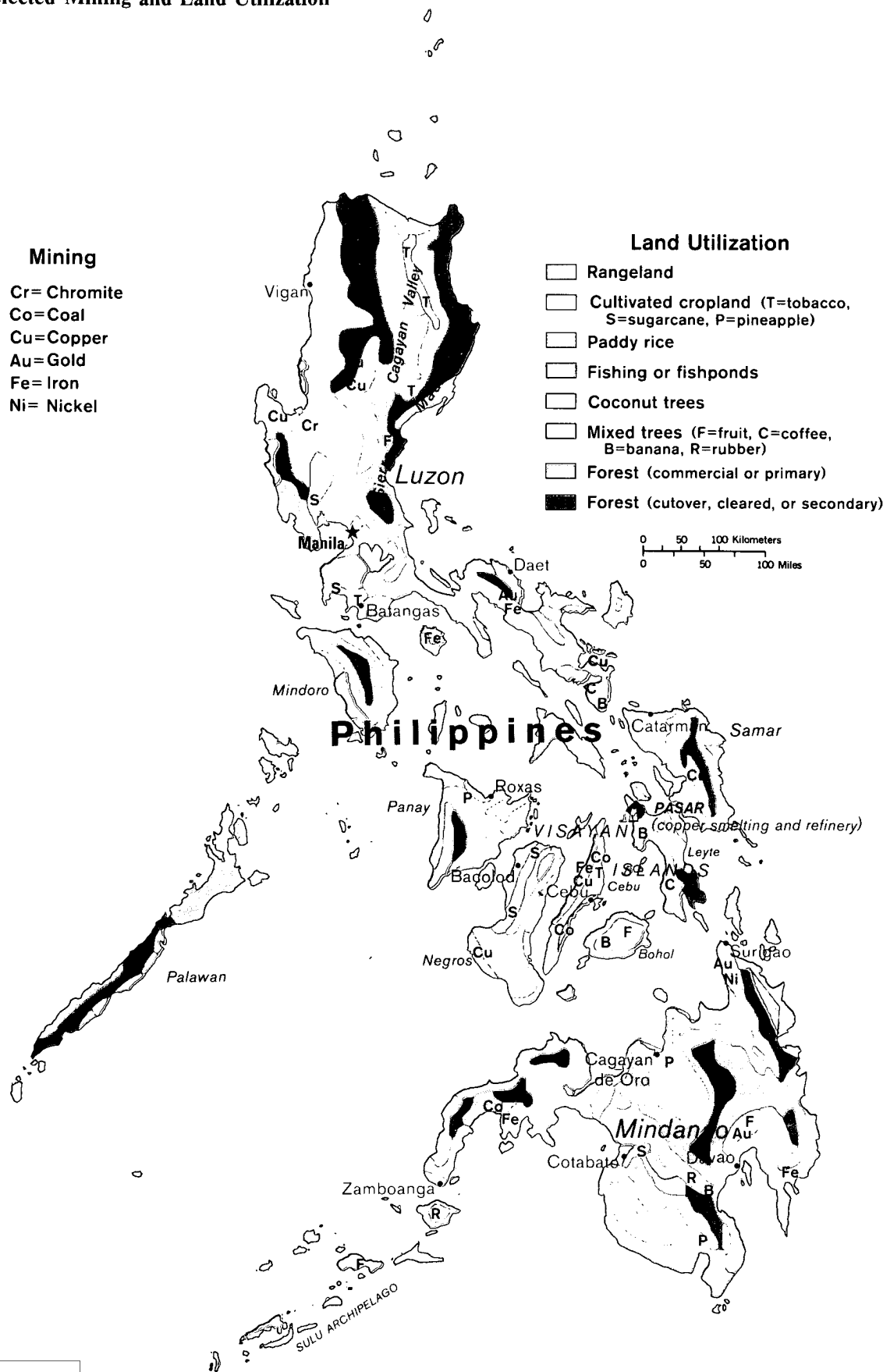
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Figure 4
Selected Mining and Land Utilization



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Table A-1
Philippine Exports of Coconut Products

Millions US \$

	Coconut Oil ^a	Dessicated Coconut	Copra Meal or Cake	Copra	Total Coconuts	Coconut Products as a Share of Total Merchandise Exports (<i>percent</i>)
1972	84	18	16	110	228	20
1973	153	32	23	166	374	20
1974	381	60	28	140	609	22
1975	231	30	33	172	466	20
1976	299	37	54	150	540	21
1977	412	90	58	201	761	24
1978	621	82	69	136	908	27
1979	742	107	86	89	1,024	22
1980	567	116	81	47	811	14
1981	533	102	81	34	750	13
1982	401	68	72	49	590	12
1983	516	88	72	4	680	14
1984	580	106	41		727	13
1985	347	76	36		459	10
1986 ^b	350	54	30	28	462	10

^a Crude and refined.^b Estimate.

Source: National Census and Statistics Office.

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higher costs of production than those of other Asian countries, especially the newer plywood industry in Indonesia.

greater access to the Japanese market because of promised trade concessions that will go into effect beginning in 1987.

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Intense competition among leading timber exporters—Malaysia, Indonesia, and the Philippines—together with restrictive trade practices on the part of developed country importers, has fostered a generally depressed international market for tropical wood. Prices for logs, sawnwood, and plywood have fallen 25 to 35 percent from peak levels in 1980. Nonetheless, world prices have begun to turn up this year and are expected to move up sharply by the late 1980s, as supplies of high-grade tropical hardwoods begin to tighten. Moreover, Philippine exporters should enjoy

The Aquino government has begun to fight the depletion problem. According to Embassy reporting, it has started to develop a serious reforestation program and a plan to revitalize the wood industry, including a total ban on log exports. A task force is to be formed to plan a program to stop log smuggling, and strong enforcement mechanisms are to be developed. The government is to supervise logging operations directly and will undertake a program to monitor the transport

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Table A-2 *Million US \$*
Philippine Exports of Sugar
and Sugar Products

	Centrifugal Raw and Refined Sugar	Molasses	Total Sugar and Sugar Products	Sugar and Sugar Products as a Share of Total Merchandise Exports (percent)
1972	211	6	217	19
1973	274	19	293	16
1974	737	28	765	28
1975	581	34	615	27
1976	429	24	453	18
1977	512	20	532	17
1978	197	16	213	6
1979	212	27	239	5
1980	624	33	657	11
1981	567	38	605	11
1982	416	25	441	9
1983	299	17	316	6
1984	246	33	279	5
1985	169	16	185	4
1986 ^a	125	15	140	3

^a Estimate.

Source: National Census and Statistics Office.

of logs to processing plants. Cooperation of military field units in timber areas will be essential, however, if the effort is to be successful.

Fisheries

The Philippine fishery sector is growing in importance as a foreign exchange earner as well as an employer in ocean fishing, processing operations, and inland or aquaculture industries. While large-scale commercial fishing operations have been relatively static over the last decade, small-vessel, part-time fishing has been trending slowly upward and now accounts for over half of annual Philippine production. Inland fisheries have shown impressive growth since 1980 and now

employ more than 200,000 workers, according to official statistics. The potential of aquaculture remains high, given low production costs, ready availability of spawning shrimp, and proximity to the Japanese market, according to Embassy reporting. Problems associated with ocean fishing—such as depletion of resources, international boundary disputes, large amounts of capital investment required, and lack of marketing and storage facilities—will continue to constrain exports from that sector.

Banana Production and Trade

Production and marketing of bananas, a key export commodity for the Philippines, has been relatively free from government intervention. Government involvement in pricing and marketing has been minimal in the plantation production of varieties for export as well as in small-producer production for domestic consumption. The Central Bank has limited its activities in the sector to administering production loans to banana growers through the World Bank's Agricultural Loan Finance Project, which provides funding for long-term credit.

While the value of exports was down 7 percent in 1985, Philippine banana exporters expect trade to grow in 1986. This optimism stems from the announced intention of Japan, the largest market, to reduce banana tariff rates from 17.5 to 12.5 percent, with an increase to 20 percent only during Japan's peak fruitgrowing season. Exporters also hope to expand the market for Philippine bananas in the Middle East and Europe.

Pineapple Industry

Production and processing of Philippine pineapple is controlled by Dole (Dole Philippines, Inc.) and Del Monte (Philippine Packing Corp.), which together account for 90 percent of fresh production and 93 percent of processing capacity. The bulk of Dole and Del Monte lands are leased from the government, although both canneries have some contracts allowing them to plant smallholder lands and pay the owner for

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Table A-3
Philippines: Sugar Mills, Area Planted, and Production,
1984/85 Crop Year ^a

	Area Planted (Hectares)	Sugarcane Milled (metric tons)	Sugar Produced (metric tons)
Total	406,751	18,719,341	1,719,034
Luzon Island			
*Batangas	16,368	452,426	48,790
*Bisudeco	8,674	259,277	19,007
Canlubang	16,607	838,976	87,133
*Casuco	8,208	255,729	24,560
Consolidated	NA	Did not mill	NA
Don Pedro	13,139	755,485	89,689
Hind	5,087	28,307	2,651
Nasudeco	8,178	320,710	27,034
Paniqui	b	134,756	13,205
Pasudeco	15,019	557,408	49,594
Tarlac	12,169	854,190	82,842
Panay Island			
Allied	NA	Did not mill	NA
Asturias	5,317	73,538	5,394
*Calinog-Lambuna	5,495	256,317	17,997
*Passi	9,183	351,958	27,485
Pilar	7,403	258,496	19,084
Santos-Lopez	6,433	179,155	13,033
Negros Island			
*Aidsisa	12,296	462,750	41,400
Bacolod-Murica	c	268,844	25,018
Bais	20,105	606,232	51,583
Biscom	29,574	894,123	83,805
Dacongogon	7,477	144,418	12,264
Danao	7,272	152,112	13,306
First Farmers	24,327	756,750	75,202
Hawaiian-Philippines	d	860,411	87,846
La Carlota	18,619	1,340,347	123,635
Lopez	11,019	779,079	69,208
Ma-ao	13,386	338,664	28,518
*Sagay	8,325	439,484	35,814
San Carlos	8,188	450,210	42,125
*Sonedco	11,758	500,513	43,185
Talisay-Silay	NA	Did not mill	NA
*To Long	6,390	213,484	17,840
*Upsumco	e	511,400	44,907
Vicmico	26,719	1,733,794	143,683

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Table A-3 (continued)

	Area Planted <i>Hectares</i>	Sugarcane Milled (<i>metric tons</i>)	Sugar Produced (<i>metric tons</i>)
Cebu Island			
Bogo-Medellin	[10,236]	353,058	38,416
Durano	[10,236]	251,701	24,715
Leyte Island			
Hideco	[14,891]	366,597	30,826
*Ormac-Rosario	[14,891]	218,000	17,437
Mindanao Island			
*Busco	20,113	941,222	92,559
*Dasuceco	7,249	223,874	22,602
*Nocosii	11,527	305,546	25,642

^a Data for crop year are for September 1984 until August 1985.

^b Included in Hind Mill District Area.

^c Included in First Farmers Mill District Area.

^d Included in Aidsisa Mill District Area.

^e Included in Bais Mill District Area.

*Mills that the Aquino government has proposed to close this year.

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the pineapple produced. Most pineapple acreage is located on Mindanao, as are both major processors. In northern Mindanao, where Del Monte is located, agriculture, dominated by pineapple, accounts for 605,000 jobs out of a total million employed. In southern Mindanao, where Dole predominates, agriculture accounts for 826,000 of 1.3 million jobs. Supplies of pineapple are available throughout the year, allowing continuous plant and labor utilization.

Pineapple production recovered from 1983-84 drought conditions in 1985 to the predrought level of 1.5 million tons and is expected to rise again slightly in 1986. According to Embassy reports, the sector was spared the impact of the nationwide fertilizer shortage largely because of the ability of Dole and Del Monte to import fertilizer through arrangements with parent companies.

The Philippines, which accounts for about one-third of all processed pineapple moving annually in world trade, was the world's largest pineapple exporter as recently as 1983 but increasingly has lost out to competition from Thailand. The Philippines remains, however, the largest supplier of processed pineapple to the United States, usually supplying about half of US imports of 190,000 metric tons.

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Other Agricultural Export Commodities

Coffee. In the last few years Philippine coffee production and exports have increased rapidly from a small base. Spurred by high world prices, both production and export earnings are expected to be at record levels this year. With increased financing and price incentives to farmers, production could be increased from 1 million bags (60-kilo) in 1985 to as much as 1.6 million bags a year by the end of the decade.

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Table A-4
Philippine Exports of Forest Products

Millions US \$

	Logs	Lumber	Plywood	Veneer and Corestock	Others	Total Forest Products Exports	Forest Products as a Share of Total Merchandise Exports (percent)
1972	164	10	34	18	9	235	20
1973	304	35	58	18	29	444	24
1974	216	30	26	19	47	338	12
1975	167	27	21	8	37	260	11
1976	135	68	43	18	44	308	12
1977	135	67	41	20	32	295	9
1978	146	85	72	22	38	363	11
1979	144	198	107	35	52	536	12
1980	92	181	111	36	48	468	8
1981	76	126	111	31	125	469	8
1982	79	124	67	20	73	363	7
1983	74	149	76	28	4	331	7
1984	88	107	56	14	6	271	5
1985	39	90	51	12	7	199 ^a	4
1986 ^b	66	114	66	16	8	270	6

^a Does not include an additional \$61 million in earnings from wood manufactures (excluding furniture).

^b Estimate.

Source: National Census and Statistics Office.

Abaca. The Philippines is the world's primary producer of abaca fiber, which is used mainly for rope, cordage, and specialty papers. The potential growth of exports is limited by extensive displacement by synthetic fibers in traditional uses. Although the fiber is grown throughout the Philippines by small farmers for whom abaca sales are usually the sole source of income, current production is concentrated in the Bicol region of southern Luzon, the eastern Visayas, and Mindanao.

Tobacco. While tobacco exports account for only about 2 percent of agricultural export earnings, the crop is vital to the economy of northwestern Luzon,

where together with rice it represents the sole source of income. Philippine tobacco producers have steadily improved tobacco quality and encouraged the growth of aromatic tobaccos, which have a well-defined export potential.

Rice Production and Trade

In both political and economic terms, rice, the main dietary staple of a majority of the Philippine people, is the country's most important crop. It occupies 80 percent of the arable land and accounts for over one-half of all agricultural jobs. The maintenance of

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Table A-5
Philippine Exports of Selected Commodities*Million US \$*

	Fish and Fish Preparations	Fresh Bananas	Pineapple Products	Coffee	Tobacco	Abaca and Abaca Products
1972	12	24	21		18	16
1973	20	28	23		27	24
1974	18	45	35		31	46
1975	17	73	41	2	35	22
1976	27	76	52	25	29	27
1977	42	73	64	45	25	29
1978	63	84	74	34	30	25
1979	49	97	96	44	33	38
1980	138	114	97	45	30	31
1981	143	124	101	39	50	25
1982	119	146	107	49	49	26
1983	132	105	102	49	35	25
1984	115	122	121	78	31	37
1985	149	113	128	71	28	37
1986 ^a	194	122	138	90	30	35

^a Estimate.

adequate stocks to assure a flow of affordable rice to the cities—and to protect farmer interests—is a major concern of the government.

Rice production in recent years has been relatively stagnant, largely because retail price ceilings have not matched rising production costs. This has necessitated increased expenditures on imports. While a world glut of rice has made it possible for the Philippines to import adequate stocks of rice at relatively low prices in recent months, the prospect of expending scarce foreign exchange to cover rapidly rising rice consumption has made self-sufficiency a priority goal. According to US Embassy reporting, the production outlook for 1986 is for a near 7-percent gain over last year, with a harvest of 5.6 million metric tons, largely as a result of increased plantings. In addition, yields are expected to improve as the removal of retail rice price ceilings in October 1985 encourages farmers to use more fertilizer.

Copper Industry

The copper industry, which accounted for 80 percent of Philippine mining and 70 percent of the country's total base metal production in 1985, is in decline. As a result of low international copper prices relative to Philippine production costs, as well as a shortage of capital, the number of major producers has contracted by 50 percent since 1980. Bankruptcies and mine closures have forced substantial layoffs and significant unemployment rates in areas dominated by the industry.

Copper exports now contribute only 2 percent toward revenues. The Philippines, which provides only 3 percent of world copper mine output, is nevertheless an important supplier, especially for Japan, as well as China and South Korea. Most mines have long-term

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Table A-6
World Rice Production, Consumption,
and Trade, 1975-86

Thousand metric tons, milled

	1975	1980	1981	1982	1983	1984	1985	1986 ^a
Production (world total)	332,100	370,900	397,300	412,700	419,500	452,700	467,600	460,900
Philippines	3,694	5,093	5,020	5,270	5,025	5,097	5,298	5,649
China	123,900	143,800	139,900	144,000	161,200	168,900	178,300	167,000
India	59,400	63,600	80,500	80,500	70,700	90,200	88,000	90,000
Others	145,106	158,407	171,880	182,930	182,575	188,503	196,002	198,251
Consumption (world total)	225,700	255,600	268,400	278,700	289,600	308,100	314,100	312,200
Philippines	3,855	4,737	4,989	5,265	5,186	5,460	5,687	5,720
China	82,700	96,700	94,700	97,700	112,400	117,100	123,900	116,100
India	43,500	50,300	53,300	54,400	48,500	58,200	57,000	59,300
Others	95,645	103,863	115,411	121,335	123,514	127,340	127,513	131,080
Trade (world total)	7,300	12,000	13,100	11,823	11,924	12,567	11,160	11,385
Imports								
Philippines	152	0	0	0	0	213	500	300
Others	7,148	12,000	13,100	11,823	11,924	12,354	10,660	11,085
Exports (world total)	7,300	12,700	13,100	11,823	11,924	12,567	11,160	11,385
Philippines	0	231	83	0	40	0	0	0
Thailand	900	2,700	3,000	3,600	3,700	4,528	4,005	4,300
United States	2,100	3,000	3,000	2,500	2,330	2,129	1,850	1,800
Others	4,300	6,769	7,017	5,723	5,854	5,910	5,305	5,285

^a USDA projections.

Source: USDA/FAS, World Grain Situation and Outlook, January 1986.



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contracts with foreign smelters, and reductions in production along with diversions of ore to domestic smelting operations have seriously interrupted trade in ore and concentrate.

increased production by more than 30 percent in 1985.

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The sole Philippine copper smelter, the Philippine Association of Smelting and Refining (PASAR), is owned by a diverse group of investors, including a consortium of Philippine mining companies and the Philippine Government, a consortium of Japanese trading companies, and the International Finance Corporation. Set up in 1983, it receives at least 30 percent of Philippine copper concentrate output by government mandate. After a slow start, PASAR

We believe a slight improvement is likely for Philippine copper exports over the next year as a result of increased demand in developed country markets forecast by industry experts and reduced production costs in the wake of falling world oil prices. Future earnings will depend on the ability of PASAR and the mining operations to increase efficiency and compete more effectively in world markets.

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Table A-7*Million :US \$***Philippines: Mineral Exports
by Major Commodity Groups**

Year	Copper Concentrates	Gold	Iron Ore and Concentrates ^a	Chromite Ore	Others ^b	Total Minerals	Minerals as a Share of Merchandise Exports (percent)
1972	191	27	9	5	7	239	20
1973	290	40	18	9	17	374	20
1974	393	74	12	13	26	518	19
1975	212	76	13	13	18	332	14
1976	266	65	7	15	18	371	14
1977	268	71		25	137	501	16
1978	250	76		25	203	554	16
1979	440	103		23	265	831	18
1980	545	239		33	214	1,031	18
1981	429	215		25	89	758	13
1982	312	169		15	36	532	11
1983	249	154		10	27	440	9
1984	115	104		19	29	267	5
1985	84	100	1	12	46	243	5
1986 ^c	90	117		12	45	264	6

^a Does not include iron ore agglomerates which earned an average of \$91 million annually for the period 1980-85.^b Includes nickel.^c Estimated.

Source: National Census and Statistics Office.

Chromium Industry

Although the Philippine chromium industry is a minor producer compared with South Africa and the USSR—providing only 4 percent of world supplies—it is nevertheless an important alternative supplier of the metal. The industry is dominated by Acoje Mining Company, owned by a state-owned Austrian conglomerate, that produces metallurgical chrome concentrate, as well as by Benguet Corporation, a Philippine company that produces refractory chrome ore and concentrate. Most of Acoje's output goes to Ferrochrome Philippines, also Austrian owned, for the production of high-carbon ferrochrome for Japan. Industry experts anticipate a stable market in 1986, reflecting continued growth in OECD economies.

Gold Industry

The Philippine gold industry, which employs 200,000 workers—more than 75 percent of the country's total mining jobs—accounts for less than 3 percent of Philippine merchandise export earnings. Production rose 36 percent in 1985, although export earnings fell slightly because of low world gold prices. Large companies, such as Benguet Corporation, account for about 60 percent of production, with small-scale panners contributing the remainder. Much of the panners' production is sold to local dealers and smuggled out of the country or given to the NPA or the military as payment for protection, according to Embassy reporting. We expect export earnings to rise in 1986 as the world price begins to rebound. Benguet Corporation plans to increase mine production to reverse losses of the last two years.

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